MOUNTAIN RURAL TELEPHONE COOPERATIVE
AND SUBSIDIARY
KY 506

FINANCIAL REPORT

DECEMBER 31, 2019

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mountain Rural Telephone Cooperative and Subsidiary
West Liberty, Kentucky

We have audited the accompanying consolidated financial statements of Mountain Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of income and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Certified Public Accountants and Advisors
642 South Fourth Street, Suite 300 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain Rural Telephone Cooperative and Subsidiary as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13, Mountain Rural Telephone Cooperative and Subsidiary have adopted Financial Accounting Standards Update 2014-09, *Revenue from Contracts with Customers.* Our opinion is not modified with respect to this matter.

Correction of Error

As described in Note 15 to the financial statements, the Cooperative discovered an error resulting in an understatement of amounts previously reported for deferred tax liabilities and income tax expense. Accordingly, amounts presented for deferred tax liabilities and income tax expense have been restated in the 2018 financial statements now presented, and a cumulative effect adjustment has been made to patronage capital as of January 1, 2018. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 21, 2020, on our consideration of Mountain Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Mountain Rural Telephone Cooperative and Subsidiary, as of and for the year ended December 31, 2018 were audited by other auditors whose report dated February 12, 2019 expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 21, 2020

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 29,661,735	$ 20,863,175
Accounts receivable, less allowance for doubtful accounts of $10,709 in 2019 and $17,874 in 2018	345,418	317,901
Other receivables	19,464	- -
Materials and supplies, at average cost	970,552	1,587,902
Prepaid expenses	29,990	33,521
Total current assets	31,027,159	22,802,499
NON-CURRENT ASSETS		
Investment securities	13,655,443	13,027,021
Associated organizations	33,530,670	30,473,038
Pension plan prefunding	2,408,243	2,247,168
Accumulated postretirement benefits	- -	669,884
Nonregulated property	3,313,801	3,233,037
Total non-current assets	52,908,157	49,650,148
PROPERTY AND EQUIPMENT		
In service	133,430,237	130,602,055
Under construction	1,489,769	3,183,455
	134,920,006	133,785,510
Less accumulated depreciation	83,655,386	78,787,983
	51,264,620	54,997,527
	$ 135,199,936	$ 127,450,174

The Notes to Consolidated Financial Statements are an integral part of these statements.

LIABILITIES AND MEMBERS' EQUITIES	2019	2018
CURRENT LIABILITIES		
Current portion of long-term debt	$ 395,488	$ 380,000
Accounts payable	903,488	1,388,660
Customer deposits	211,235	204,211
Accrued taxes	780,000	780,000
Accrued leave	1,990,942	1,996,176
Accrued expenses	376,130	210,257
Total current liabilities	4,657,283	4,959,304
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	5,772,056	6,173,850
Accumulated postretirement benefits	2,779,504	- -
Deferred tax liabilities	2,870,000	2,600,000
Total non-current liabilities	11,421,560	8,773,850
MEMBERS' EQUITIES		
Memberships and capital investments	130,360	129,469
Patronage capital and retained earnings	124,810,800	115,816,635
Donated capital	1,323,975	1,323,802
Accumulated comprehensive income (loss)	(7,144,042)	(3,552,886)
Total members' equities	119,121,093	113,717,020
	$ 135,199,936	$ 127,450,174

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
Operating revenues:		
Local network service	$ 6,491,082	$ 5,917,050
Network access service	11,636,935	11,787,016
Carrier billing and collection	253,175	257,133
Miscellaneous	649,456	792,539
Access revenue	44,000	19,500
Total operating revenues	19,074,648	18,773,238
Operating expenses:		
Plant specific operations expense	3,456,546	3,293,585
Plant non-specific	1,688,171	1,786,633
Depreciation	5,815,013	6,416,410
Customer operations expense	1,351,495	1,434,211
Corporate operation expense	2,025,755	2,024,782
Other deductions	126,743	135,306
Other taxes	923,568	974,872
Total operating expenses	15,387,291	16,065,799
Operating income	3,687,357	2,707,439
Other income (expense):		
Interest income	553,146	382,477
Interest expense	(150,465)	(214,352)
Other income	456,238	405,991
Income in limited liability company	4,787,430	1,010,644
Total other income (expense)	5,646,349	1,584,760
Income before income taxes	9,333,706	4,292,199
Income tax benefit (expense)	894,618	(756,232)
Net income before nonregulated income	10,228,324	3,535,967
Nonregulated income	1,759,595	1,401,181
Net income	$ 11,987,919	$ 4,937,148
Other comprehensive income (loss)		
Accumulated postretirement benefits	(3,591,156)	225,780
Total comprehensive income	$ 8,396,763	$ 5,162,928

The Notes to Consolidated Financial Statements are an integral part of these statements.

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2019 and 2018

	Memberships	Patronage Capital	Other Equity	Accumulated Other Comprehensive (Loss)	Total
Balance, January 1, 2018, as previously reported	$ 129,332	$ 115,568,195	$ 1,323,801	$ (3,778,666)	$ 113,242,662
Prior period adjustment		(2,450,000)			(2,450,000)
Balance, January 1, 2018, as adjusted	129,332	113,118,195	1,323,801	(3,778,666)	110,792,662
Net income	- -	4,937,148	- -	- -	4,937,148
Postretirement benefit obligations					
Amortization	- -	- -	- -	225,780	225,780
Refunds of capital credits	- -	(2,238,707)	- -	- -	(2,238,707)
Memberships issued, net	137	- -	- -	- -	137
Other equities	- -	(1)	1	- -	- -
Balance, December 31, 2018	129,469	115,816,635	1,323,802	(3,552,886)	113,717,020
Net income	- -	11,987,919	- -	- -	11,987,919
Postretirement benefit obligations					
Amortization	- -	- -	- -	225,780	225,780
Adjustments	- -	- -	- -	(3,816,936)	(3,816,936)
Refunds of capital credits	- -	(2,993,754)	- -	- -	(2,993,754)
Memberships issued, net	891	- -	- -	- -	891
Other equities	- -	- -	173	- -	173
Balance at December 31, 2019	$ 130,360	$ 124,810,800	$ 1,323,975	$ (7,144,042)	$ 119,121,093

The Notes to Consolidated Financial Statements are an integral part of these statements.

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,987,919	$ 4,937,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,815,013	6,416,410
Net loss (income) in associated organization	(4,787,430)	(1,010,644)
Accumulated postretirement benefits	(141,768)	(104,972)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable	(27,518)	(575,016)
Other receivables	(19,464)	- -
Material and supplies	617,350	888,981
Prepaid expenses	3,531	5,279
Accounts payable	(485,172)	719,664
Customer deposits	7,024	9,685
Accrued expenses	160,639	793
Deferred tax liabilities	270,000	150,000
Net cash provided by operating activities	13,400,124	11,437,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(2,084,230)	(3,609,202)
Salvage, net of removal cost	2,124	(7,949)
Purchases of securities	(628,422)	(15,713)
Associated organizations	1,729,799	1,837,552
Nonregulated property	(80,764)	(12,671)
Net cash (used in) investing activities	(1,061,493)	(1,807,983)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(386,306)	(12,227,656)
Prefund pension plan	(161,075)	(114,799)
Membership and capital investments	891	137
Retirements of capital credits	(2,993,754)	(2,238,707)
Increase in donated capital	173	- -
Net cash (used in) financing activities	(3,540,071)	(14,581,025)
Net increase (decrease) in cash and cash equivalents	8,798,560	(4,951,680)
Cash and cash equivalents:		
Beginning of year	20,863,175	25,814,855
End of year	$ 29,661,735	$ 20,863,175
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest on long term debt	$ 150,465	$ 214,352
Income taxes paid	- -	606,232

The Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

Mountain Rural Telephone Cooperative Corporation (the Cooperative) maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS) Uniform System of Accounts, which conform in all material respects with generally accepted accounting principles. The significant policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly owned Subsidiary, Mountain Telecommunications, Inc. (Mountain Telecommunications). All significant inter-company accounts and transactions have been eliminated.

Nature of Business

The Cooperative has completed construction allowing it to expand its services network. This network establishes the Cooperative as a full-service network (FSN) provider allowing it to provide expanded video services with over 200 channels, high definition television and Video on Demand. It is also able to provide high speed internet, virtual private networks, and voice over internet protocol (VoIP). This is accomplished through Fiber to the Home (FTTH) technology.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Cash and Cash Equivalents

The Cooperative considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. For purposes of the statement of cash flows, the Company considers temporary investments having original maturities of three months or less to be cash equivalents. The Company maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Management believes that credit risk related to the accounts is minimal.

Investment Securities

Investment securities consist of certificates of deposit and bank repurchase agreements in local banks and are carried at cost, which approximates fair value, and are held to maturity. Fair value is determined by quoted prices for similar certificates of deposit in active markets (Level 2) as defined under U.S GAAP.

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at face amount less an allowance for doubtful accounts. The allowance for doubtful accounts is based on the aging of accounts receivable. Accounts are written off when they are deemed to be uncollectible. There were no customers whose individual account balance exceeded ten percent of outstanding accounts receivable at December 31, 2019 and 2018. The number of access lines was 12,713 for 2019 and 13,283 at 2018.

Materials and Supplies

Materials and supplies are composed primarily of telephone material and supplies used in the telecommunications plant. The inventory is valued at the lower of cost or net realizable value, cost being determined by the average cost method.

Telecommunications Revenue Recognition

Revenues are recognized when earned. Bills are sent to customers on credit the first of each month with local service being billed a month in advance of service. Sales are concentrated in a portion of five (5) southeastern Kentucky counties. Payments are due 10 days from the date of billing. If payment has not been made, then customers are subject to disconnect on the 21st day of the month.

Interstate revenues are recognized on the cost basis recovery method. Compensation for intrastate/interlata service is received through tariffed access charges as filed with the FCC. These access charges are billed to the interlata long distance carrier and retained by the Cooperative.

Video Revenue Recognition

Video revenue is recognized when earned regardless of the period in which they are billed. Programming transmission is purchased from networks at various amounts based on the number of customers receiving the service.

Taxes

The Cooperative's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Risk Management

The Cooperative is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2019 and 2018, these costs were $89,119 and $85,629, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Telecommunications Plant

Telecommunications plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. Interest capitalized during the year was $43,081 for 2019 and $71,347 for 2018.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision has been made for depreciation on the basis of estimated lives of assets (as prescribed by the Public Service Commission of Kentucky) using the straight-line method. Rates are as follows:

	Telephone	Telecom
General support	2.7% - 15.8%	20.0%
Central office switching	7.5%	
Central office transmission	10.0%	
Cable wire facilities	5.1% - 9.4%	

Income Taxes

The Cooperative is exempt from federal and state income taxes under IRS Code Section 501(c)(12). Certain unrelated business activities are subject to federal income taxes. Mountain Telecommunications is a “C” corporation that pays income taxes on its net income. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investments in associated organizations. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled.

The Cooperative’s accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes the Cooperative has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Cooperative did not recognize any interest or penalties during the years ended December 31, 2019 and 2018.

The Cooperative’s income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years for federal and four years for state.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Comprehensive Income

Comprehensive income includes both net income and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation.

Subsequent Events

Management has evaluated subsequent events through March 21, 2020, the date the consolidated financial statements were available to be issued.

Recently issued accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheets at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statements of income. This standard will be effective for the year ending December 31, 2021. Management is currently in the process of evaluating the impact of the adoption of this ASU on the Cooperative's financial statements.

In June 2016, the FASB issued ASU No. 2016-13 (ASU 2016-13), *Financial Instruments – Credit Losses*. This guidance replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan and financing receivables, held-to-maturity debt securities and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. This standard is effective for the year ending December 31, 2023. Management is currently in the process of evaluating the impact of the adoption of this ASU on the Cooperative's financial statements.

Note 2. Fair Value Measurements

U.S. GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect a company's own assumptions of market participant valuation (Level 3).

The Cooperative invests idle funds with local banks in certificates of deposits and U.S. Treasury Notes.

Note 2. Fair Value Measurements (Continued)

The Cooperative's investment securities measured at fair value on a non-recurring basis are as follows:

	Fair value	Fair value measurements using: Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2019			
Certificates of deposit	$ 3,000,000	$ - -	$ 3,000,000
Bank repurchase agreements	10,655,443	10,655,443	- -
	$ 13,655,443	$ 10,655,443	$ 3,000,000
December 31, 2018			
Certificates of deposit	$ 3,000,000	$ - -	$ 3,000,000
Bank repurchase agreements	10,027,021	10,027,021	- -
	$ 13,027,021	$ 10,027,021	$ 3,000,000

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC ("EKN") represents Mountain Telecommunications' investment in a limited liability company with other telephone companies in eastern Kentucky for the purpose of providing cellular telephone, paging, and other services. The investment is accounted for using the equity method since Mountain Telecommunications is a 20% member and has the ability to significantly influence EKN's operations and financial policies. EKN has been paying distributions of approximately 50% of the income allocated in cash during the following year. The following is summarized financial information of EKN as of and for the years ended December 31, 2019 and 2018:

	2019	2018
Assets	$ 200,788,162	$ 178,938,066
Liabilities	$ 33,134,801	$ 26,432,862
Equity	$ 167,653,361	$ 152,505,204
Revenues and other income	$ 132,935,842	$ 116,740,801
Expenses and other expenses	$ 118,866,602	$ 111,739,659
Net income	$ 14,069,240	$ 5,001,142

Note 4. Telecommunications Plant

The major classification of plant service is:

	2019	2018
Telecommunications Plant:		
General support	$ 16,370,615	$ 16,414,766
Central office switching	1,590,117	1,510,843
Central office transmission	26,772,760	25,860,906
Cable wire facilities	88,691,311	86,810,106
Intangibles	2,434	2,434
	133,427,237	130,599,055
Telecom Plant:		
General support	3,000	3,000
Total	$ 133,430,237	$ 130,602,055

Note 5. Nonregulated Activities

Deregulated customer premises equipment is stated at cost; material held for lease or resale is stated at average cost. Customer Premises Equipment (CPE) also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 11.9% per year. The Cooperative provides long distance telephone service under the name of Mountain Telephone Long Distance (“MTLD”). MTLD revenues are billed and collected through the Cooperative. A monthly fee is recorded based on telephone usage. MTLD purchases minutes of long distance to resell to its customers from an unrelated party. Nonregulated investments also include amounts that the Cooperative has invested to provide internet services to its customers. The Cooperative has an in-house help desk service department and utilizes an answering service after hours for emergencies only. The following is a summary of nonregulated activities:

	2019	2018
Investments	$ 448,679	$ 439,753
Material and supplies	165,557	772,795
Plant assets	6,706,330	5,613,086
Reserve for depreciation	(4,006,765)	(3,592,597)
	$ 3,313,801	$ 3,233,037

Note 5. Nonregulated Activities (Continued)

	Income	Expenses	Net
Customer premises equipment	$ 760,340	$ 1,932,702	$ (1,172,362)
Internet activities	3,583,483	1,221,215	2,362,268
Long distance services	449,477	428,573	20,904
Video services	3,212,642	2,967,601	245,041
Security/Surveillance/Bus Systems	685,760	382,016	303,744
Total - 2019	$ 8,691,702	$ 6,932,107	$ 1,759,595

	Income	Expenses	Net
Customer premises equipment	$ 744,108	$ 1,981,304	$ (1,237,196)
Internet activities	3,549,529	1,417,868	2,131,661
Long distance services	496,790	440,263	56,527
Video services	2,953,253	2,617,207	336,046
Security/Surveillance/Bus Systems	312,905	198,762	114,143
Total - 2018	$ 8,056,585	$ 6,655,404	$ 1,401,181

Note 6. Long-Term Debt

All telecommunications assets, except motor vehicles, are pledged as collateral on the long-term debt due to the U.S. Department of Agriculture, Rural Development ("USDA"). The debt was incurred for the FSN project as described earlier and is due in monthly installments of varying amounts. During February 2018, the Cooperative repaid an additional $11,801,111 principal on the RUS Broadband loans. Long-term debt is as follows:

	2019	2018
RUS Broadband Loan 2.27%-2.46%	$ 6,167,544	$ 6,553,850
Less current portion	395,488	380,000
Long-term portion	$ 5,772,056	$ 6,173,850

Principal payments for the next five years and thereafter are as follows:

2020	$ 395,488
2021	404,936
2022	414,596
2023	424,486
2024	434,599
Thereafter	4,093,439
	$ 6,167,544

Note 7. Patronage Capital

The long-term debt agreement contains restrictions on the return to patrons of capital contributed by them. The restrictions relate in general to the Cooperative's net worth and assets, as defined. The net worth of the Cooperative at December 31, 2019 and 2018 was 93% for both years. Patronage capital consists of the following:

	2019	2018
Assigned	$ 109,234,125	$ 105,242,187
Assignable	11,987,919	5,087,148
Unassigned	47,923,661	46,828,450
Retirements to date	(44,334,905)	(41,341,150)
Total	$ 124,810,800	$ 115,816,635

Note 8. Pension Plan

All eligible non-union employees of the Cooperative participate in the National Telephone Cooperative Association (NTCA) Pension Plan ("R&S Plan"), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 52-0741336 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers. There have been no significant changes that affect the comparability of 2019 and 2018.

The Cooperative's contributions to the R&S Plan in 2019 and 2018 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $433,560 in 2019 and $455,879 in 2018.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was over 100 and 105 percent funded at January 1, 2019 and 2018, respectively, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

The NTCA Board of Directors amended the 2018 R&S Program specifications at the recommendation of the Plan Trust Committee to include the following changes:

- Basic contribution rates will increase by 19%.
- The program's current surcharge will expire at the end of 2018, and a new surcharge contribution of 50% of the member's elected contribution rate will begin in 2019. This surcharge is expected to continue for approximately 12 years.
- A prefunding option was added to allow members the option to prefund their future surcharge contributions in a single payment prior to the start of the new surcharge effective in 2019.

Note 8. Pension Plan (Continued)

- Beginning January 1, 2018, for members that have adopted the Rule-of-85 ("ROE") provision, the ROE charge will apply to both the member's elected employer contribution rate and any required employee contribution rate.

Over the past several years, various actions have been taken to sustain the reserve of funds available to help meet the programs legally required minimum contribution amount. However, adverse economic conditions and regulatory changes have negatively affected all pension plans, including the R&S Program. Despite prudent decision-making by the program's trust committee, the R&S Program's minimum contribution amount is projected to exceed the current reserve and member contributions alone will not meet the minimum requirement. This expectation has led the program's actuary to recommend the new surcharge contribution beginning in 2020. The R&S Program is offering prefunding to give members flexibility in addressing this situation at the Cooperative.

The prefunding contribution is expected to fund the member's surcharge contribution for approximately 12 years.

- Each member's prefunding contribution will be maintained in a notional account within the R&S Program and used to pay that member's surcharge contributions.
- Each member's prefunding account is maintained separately from other member's prefunding accounts.
- Account funds will be invested with other R&S Program assets and grow at the same rate as the program's overall investment returns.
- An annual statement will be provided to each member showing their specific prefunding account activity.

During 2016, the Cooperative prefunded the surcharge in an amount of $2,326,221. This amount will be amortized over the 12-year period the surcharge is expected to continue.

Employees hired after January 1, 2016 are considered Schedule 2 employees. Contributions rates are as follows:

	2017 and after	2016 and before
Schedule 1 Employees		
Employer contributions	10.70%	8.30%
Employee contributions	4.00%	4.00%
Rate of 85 charges	5.50%	5.50%
Schedule 2 Employees		
Employer contributions	8.70%	6.30%
Employee contributions	6.00%	6.00%
Rate of 85 charges	5.50%	5.50%

Note 9. Accumulated Postretirement Benefits

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees and dependents do not contribute to the projected cost of coverage. Employees hired before January 1, 2016 (Schedule 1) qualify with a minimum age of 55 and meeting the Rule of 85. There have been no significant changes that affect the comparability of 2019 and 2018.

The following illustrates the plan for the years ended December 31, 2019 and 2018:

	2019	2018
Benefit obligation, beginning of year	$ 17,727,134	$ 18,974,480
Service cost	602,748	551,264
Interest cost	925,576	825,786
Benefits paid	(571,068)	(534,273)
Actuarial (gain) loss	6,199,221	(2,090,123)
Benefit obligation, end of year	$ 24,883,611	$ 17,727,134

	2019	2018
Fair value of plan assets, beginning of year	$ 18,397,018	$ 19,313,612
Actual return on plan assets	4,278,157	(382,321)
Employer contributions	- -	- -
Benefits paid	(571,068)	(534,273)
Fair value of plan assets, end of year	$ 22,104,107	$ 18,397,018

	2019	2018
Reconciliation of funded status:		
Funded status	$ (2,779,504)	$ 669,884
Net amount recognized at year end	$ (2,779,504)	$ 669,884

	2019	2018
Amounts recognized in the balance sheet consists of:		
Noncurrent assets (liabilities)	$ (2,779,504)	$ 669,884
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial gain (loss)	$ (7,144,042)	$ (3,552,886)

Note 9. Accumulated Postretirement Benefits (Continued)

	2019	2018
Components of net periodic benefit cost:		
Service cost	$ 602,748	551,264
Interest cost	925,576	825,786
Expected return on plan assets	(1,287,791)	(65,733)
Amortization cost	414,074	225,780
Net periodic benefit cost	$ 654,607	$ 1,537,097

	2019	2018
Weight-average assumptions as of December 31:		
Discount rate	4.30%	4.30%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%
Effect of 1% trend sensitivity for medical plan:		
Projected benefit obligation	$ 25,075,181	
Net periodic benefit cost	$ 1,202,690	

The projected retiree benefit payments are expected to be as follows: 2020 - $495,000; 2021 - $475,000; 2022 - $470,000; 2023 - $415,000; 2024 - $400,000.

The Plan's investments are reported at fair value as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2019			
Stocks	$ 12,599,341	$ 12,599,341	
Investment grade debt instruments	3,978,739		3,978,739
High-yield debt instruments	2,210,411		2,210,411
Real assets	2,873,534		2,873,534
Other	442,082		442,082
	$ 22,104,107	$ 12,599,341	$ 9,504,766
December 31, 2018			
Stocks	$ 10,486,300	$ 10,486,300	
Investment grade debt instruments	3,311,464		3,311,464
High-yield debt instruments	1,839,702		1,839,702
Real assets	2,391,612		2,391,612
Other	367,940		367,940
	$ 18,397,018	$ 10,486,300	$ 7,910,718

Note 10. Income Taxes

The components of income tax are as follows:

	December 31, 2019	December 31, 2018
Current:		
Federal	$ (1,098,099)	$ 521,505
State	(66,519)	84,727
	(1,164,618)	606,232
Deferred:		
Federal	216,000	120,000
State	54,000	30,000
	270,000	150,000
`	$ (894,618)	$ 756,232

The deferred tax liabilities in the accompanying balance sheets consist of the following components:

	December 31, 2019	December 31, 2018
Deferred tax liabilities:		
Federal	$ 2,296,000	$ 2,080,000
State	574,000	520,000
	$ 2,870,000	$ 2,600,000

Note 11. Commitments

The Cooperative has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction, maintenance, and other work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 12. Contingencies

The Cooperative, occasionally, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Note 13. Revenue Recognition

Adoption of accounting pronouncement

The Cooperative adopted ASU 2014-09, *Revenue from Contracts with Customers* as of January 1, 2019 using a modified retrospective method. The new standard replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. The adoption of ASU 2014-09 had no material impact on earnings or equity of the Cooperative.

Under ASU 2014-09, the timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as customer deposits. The Cooperative has no contract assets or long-term contract liabilities.

Nature of goods and services

The following is a description of principal activities from which the Cooperative generates its revenues.

Telecommunications revenues – The Cooperative's regulated sources of revenue are local network services, network access services (interstate and intrastate/interlata), carrier billing, broadband only and other service charges. The Cooperative's nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services, and security/surveillance/bus systems.

Significant judgments

Revenues from sales of equipment are recognized when control has transferred to the customer. Telecommunication service revenues are recognized as the related service is provided. Services are deemed to be highly interrelated when the method and timing of transfer and performance risk are the same. Highly interrelated services that are determined to not be distinct have been grouped into a single performance obligation. Each month of services promised is a performance obligation. The series of monthly service performance obligations promised over the course of the contract are combined into a single performance obligation for purposes of the allocation.

The Cooperative has made judgments regarding transaction price, including but not limited to issues relating to variable consideration, time value of money and returns. When determined to be significant in the context of the contract, these items are considered in the valuation of transaction price at contract inception or modification, as appropriate.

Multiple performance obligations

The Cooperative sells bundled service and equipment offerings. In these instances, the Cooperative recognizes its revenue based on the relative standalone selling prices for each distinct service or equipment performance obligation or bundles thereof. The Cooperative estimates the standalone selling price of the device or accessory to be its retail price excluding discounts. The Cooperative estimates the standalone selling price of telecommunication service to be the price offered to customers on month-to-month contracts.

Note 13. Revenue Recognition

From time to time, the Cooperative may offer certain promotions to incentivize customers to switch to, or to purchase additional services from the Company. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchased shown as a rebate or credit to the customer's monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer's monthly bill.

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2019 and 2018 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues are recognized over time and equipment sales at a point in time.

	2019	2018
Regulated income:		
Local network services	$ 6,491,082	$ 5,917,050
Network access services	11,636,935	11,787,016
Carrier billing and collections	253,175	257,133
Miscellaneous	649,456	792,539
Access revenue	44,000	19,500
	$ 19,074,648	$ 18,773,238
Nonregulated income:		
Customer premises equipment	$ 760,340	$ 744,108
Internet activities	3,583,483	3,549,529
Long distance services	449,477	496,790
Video services	3,212,642	2,953,253
Security/Surveillance/Bus Systems	685,760	312,905
	$ 8,691,702	$ 8,056,585

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was $211,235 and $204,211 as of December 31, 2019 and 2018, respectively.

Note 14. Risks and Uncertainties

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Cooperative as of March 21, 2020, management believes that a material impact on the Cooperative's financial position and results of future operations is reasonably possible.

Note 15. Correction of Error

The Cooperative discovered it omitted deferred tax liabilities related to its investment in an affiliated organization. The Company has restated its 2018 previously issued consolidated financial statements to reflect the correction of an error. The effect of the correction increased income tax expense from $606,232 to $756,232 and increased deferred tax liabilities from zero to $2,600,000. The cumulative effect of the correction decreased beginning patronage capital as of January 1, 2018 by $2,450,000.

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INDEPENDENT AUDITOR'S REPORT ON
THE SUPPLEMENTARY INFORMATION

To the Board of Directors
Mountain Rural Telephone Cooperative and Subsidiary
West Liberty, Kentucky

We have audited the financial statements of Mountain Rural Telephone Cooperative and Subsidiary as of December 31, 2019, and our report thereon dated March 21, 2020, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information found on pages 23 and 24, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 21, 2020

Certified Public Accountants and Advisors
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MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2019

	Mountain Rural Telephone Cooperative	Mountain Telecommunications	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 16,381,444	$ 13,280,291	$ - -	$ 29,661,735
Accounts receivable, net	347,083	- -	(1,665)	345,418
Other receivables	- -	19,464	- -	19,464
Materials and supplies, at average cost	970,552	- -	- -	970,552
Prepaid expenses	29,990	- -	- -	29,990
Total current assets	17,729,069	13,299,755	(1,665)	31,027,159
NON-CURRENT ASSETS				
Investment securities	13,655,443	- -	- -	13,655,443
Associated organizations	43,961,385	33,530,670	(43,961,385)	33,530,670
Pension plan prefunding	2,408,243	- -	- -	2,408,243
Accumulated postretirement benefits	- -	- -	- -	- -
Nonregulated property	3,313,801	- -	- -	3,313,801
Total non-current assets	63,338,872	33,530,670	(43,961,385)	52,908,157
PROPERTY AND EQUIPMENT				
In service	133,427,237	3,000	- -	133,430,237
Under construction	1,489,769	- -	- -	1,489,769
	134,917,006	3,000	- -	134,920,006
Less accumulated depreciation	83,655,011	375	- -	83,655,386
	51,261,995	2,625	- -	51,264,620
	$ 132,329,936	$ 46,833,050	$ (43,963,050)	$ 135,199,936
LIABILITIES AND MEMBERS' EQUITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	$ 395,488	$ - -	$ - -	$ 395,488
Accounts payable	903,488	1,665	(1,665)	903,488
Customer deposits	211,235	- -	- -	211,235
Accrued taxes	780,000	- -	- -	780,000
Accrued leave	1,990,942	- -	- -	1,990,942
Accrued expenses	376,130	- -	- -	376,130
Total current liabilities	4,657,283	1,665	(1,665)	4,657,283
NON-CURRENT LIABILITIES				
Long-term debt, less current portion	5,772,056	- -	- -	5,772,056
Accumulated postretirement benefits	2,779,504	- -	- -	2,779,504
Deferred tax liabilities	- -	2,870,000	- -	2,870,000
Total non-current liabilities	8,551,560	2,870,000	- -	11,421,560
MEMBERS' EQUITIES				
Memberships and capital investments	130,360	4,780,000	(4,780,000)	130,360
Patronage capital and retained earnings	124,810,800	39,181,385	(39,181,385)	124,810,800
Donated capital	1,323,975	- -	- -	1,323,975
Accumulated other comprehensive (loss)	(7,144,042)	- -	- -	(7,144,042)
Total members' equities	119,121,093	43,961,385	(43,961,385)	119,121,093
	$ 132,329,936	$ 46,833,050	$ (43,963,050)	$ 135,199,936

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2019

	Mountain Rural Telephone Cooperative	Mountain Telecommunications	Eliminations	Consolidated
Operating revenues				
Local network service	$ 6,491,082	$ - -	$ - -	$ 6,491,082
Network access service	11,636,935	- -	- -	11,636,935
Carrier billing and collection	253,175	- -	- -	253,175
Miscellaneous	649,456	- -	- -	649,456
Access revenue	44,000	- -	- -	44,000
Total operating revenues	19,074,648	- -	- -	19,074,648
Operating expenses				
Plant specific operations	3,456,546	- -	- -	3,456,546
Plant non-specific	1,688,171	- -	- -	1,688,171
Depreciation	5,814,960	53	- -	5,815,013
Customer operations	1,351,495	- -	- -	1,351,495
Corporate operations	2,005,916	19,839	- -	2,025,755
Other deductions	126,743	- -	- -	126,743
Other taxes	923,568	- -	- -	923,568
Total operating expenses	15,367,399	19,892	- -	15,387,291
Operating income (loss)	3,707,249	(19,892)	- -	3,687,357
Other income (expenses)				
Interest income	449,033	104,113	- -	553,146
Interest expense	(150,465)	- -	- -	(150,465)
Other income	456,238	- -	- -	456,238
Income in limited liability company	5,766,269	4,787,430	(5,766,269)	4,787,430
Total other income (expenses)	6,521,075	4,891,543	(5,766,269)	5,646,349
Income before income taxes	10,228,324	4,871,651	(5,766,269)	9,333,706
Income tax benefit	- -	894,618	- -	894,618
Net income before nonregulated income	10,228,324	5,766,269	(5,766,269)	10,228,324
Nonregulated income	1,759,595	- -	- -	1,759,595
Net income	$ 11,987,919	$ 5,766,269	$ (5,766,269)	$ 11,987,919
Other comprehensive (loss)				
Accumulated postretirement benefits	(3,591,156)	- -	- -	(3,591,156)
Total comprehensive income	$ 8,396,763	$ 5,766,269	$ (5,766,269)	$ 8,396,763

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Mountain Rural Telephone Cooperative and Subsidiary
West Liberty, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Mountain Rural Telephone and Cooperative (the Cooperative), as of and for the year ended December 31, 2019, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 21, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 21, 2020

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR TELEPHONE BORROWERS

Board of Directors
Mountain Rural Telephone Cooperative and Subsidiary
West Liberty, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Mountain Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the balance sheet as of December 31, 2019, and the related statements of income and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2020 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;

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- Obtain written of the RUS to enter into any contract, agreement, or lease with an Subsidiary as defined in Part 1773.33 (e)(2)(i);
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles, and;
- Comply with the requirements for the detailed schedule of investments, which is listed below.

During 2004, the Cooperative formed a wholly-owned Subsidiary, Mountain Telecommunications, Inc., which provides telecommunications services outside of the Cooperative's service territory and is also 20% owner of East Kentucky Network, LLC, that provides cellular and other communication services in Eastern Kentucky. The initial investment was $1,130,000. The investment in Mountain Telecommunications, Inc. is comprised of the following:

	Investments	Profits	Total
Beginning of year	$ 4,780,000	$ 36,015,116	$ 40,795,116
Activity for 2019	- -	3,166,269	3,166,269
End of year	$ 4,780,000	$ 39,181,385	$ 43,961,385

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for telecommunication borrowers based on the requirements of 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers and Grantees. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 21, 2020